

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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May 23, 2023


TO: Homelessness & Behavioral Health Select Committee 
FROM: Budget and Legislative Analyst
SUBJECT: June 2, 2023 Homelessness & Behavioral Health Select Committee Meeting

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<p>Item 4 File 23-0452</p>	<p>Department: Homelessness and Supportive Housing (HSH)</p>
<p>EXECUTIVE SUMMARY</p>	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the first amendment to the grant agreement between the City and Tenderloin Housing Clinic. The amendment (1) increases the grant agreement’s not to exceed from \$9,990,000 to \$34,326,248; and (2) extends the term of the grant from June 2023 through June 2026. <p>Key Points</p> <ul style="list-style-type: none"> • Tenderloin Housing Clinic provides support services, property management, and master lease services at three supportive housing properties, totaling 236 units. These supportive housing units serve formerly homeless and income-eligible adults, including 18 units for veterans. • HSH completed an initial review of the program’s performance, including site visits in April 2023, and provided draft findings to Tenderloin Housing Clinic, which has until June 5, 2023 to respond to HSH’s observations and findings. HSH draft findings included: (1) the three sites having higher vacancy rates than contract goals, (2) supportive service outcomes below contract goals, (3) an out of service elevator, which has since been restored to service, and (4) missing administrative documentation. Findings are subject to change, pending additional documentation from Tenderloin Housing Clinic during the program monitoring close out process. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The annual cost of the program in the extension period is \$9.4 million, of which \$6.6 million is funded by the City. The remaining \$2.7 million of annual expenditures are primarily funded by a Continuum of Care federal grant (\$2.1 million), tenant rents, and U.S. Veterans Affairs Supportive Housing (VASH) vouchers. <p>Policy Consideration</p> <ul style="list-style-type: none"> • Based on the preliminary program monitoring findings and underspending on this year’s grant agreement due, in part, to staff vacancies, we recommend the Board approve a one-year extension to the proposed agreement through FY 2023-24. HSH can then return to the Board of Supervisors with evidence of improved performance at these sites. • Over time, if vacancies persist and performance does not improve, the Board should consider requesting that HSH transfer residents to other housing providers and re-purpose these sites as shelter. <p>Recommendations</p> <ul style="list-style-type: none"> • Reduce the not to exceed amount of the proposed resolution from \$34,326,248 to \$17,100,000 and the extension term from three years to one year. • Approve the resolution, as amended. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

Procurement

Tenderloin Housing Clinic, a nonprofit organization selected to provide supportive housing under Chapter 21B of the Administrative Code, which allows the Department of Homelessness & Supportive Housing (HSH) to award homeless service contracts without a competitive process to expeditiously address the homelessness crisis. This code section sunsets in March 2024 or if the Point-in-Time Count falls below 5,250. HSH is planning to undergo a procurement process for its permanent supportive housing portfolio, with new agreements expected to be in place by FY 2025-26.

Current Agreement

The Department of Homelessness and Supportive Housing (HSH) entered into a grant agreement with Tenderloin Housing Clinic with a term of July 2021 through June 2023 and with a total not-to-exceed amount of \$9,990,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the grant agreement between the City and Tenderloin Housing Clinic. The amendment (1) increases the grant agreement's not to exceed from \$9,990,000 to \$34,326,248; and (2) extends the term of the grant through June 30, 2026.

Grant Agreement Services

Tenderloin Housing Clinic provides support services, property management, and master lease services at three supportive housing properties, totaling 236 units. These supportive housing units serve formerly homeless and income-eligible adults, including 18 units for veterans. Exhibit 1 below lists the three buildings Tenderloin Housing Clinic oversees under this grant agreement.

Exhibit 1: Tenderloin Housing Clinic Supportive Housing Properties

Program Site	Address	Units
Crown Hotel	528 Valencia	49
Winton Hotel	445 O'Farrell	101
National Hotel	1139 Market	86
Total		236

Source: Appendix B of Proposed Amendment

System of Care

According to HSH, the Department has 11,486 units of permanent supportive housing as reflected in the 2023 Housing Inventory Count. 8,778 of these units are site-based permanent supportive housing units, including the units in these three buildings.

According to the 2022 Point-in-Time count, there were 4,397 unsheltered residents in San Francisco, a 15% decrease from the 5,180 in 2019.

Services Provided*Support Services*

The grant agreement includes voluntary support services that Tenderloin Housing Clinic must make available to all tenants. These services must include but are not limited to: (1) Outreach to tenants about available services; (2) Intake and assessment in coordination with property management; (3) Case management, including referral to resources to ensure they are food secure and can live independently; (4) Housing stability support to help tenants stay securely housed; (5) Facilitate communication and coordination with property management; (6) Wellness and emergency safety checks; (7) Support groups, social events, and organized activities; and (8) Exit planning if a tenant is moving out.

Property Management and Master Lease Services

Property management services include: (1) Selecting program applicants; (2) Executing tenant leases; (3) Re-certifying tenant income annually; (4) Collecting rent and other housing-related payments; (5) Enforcing leases, which includes providing written notices and working to prevent evictions; (6) Payments for building services (i.e. utilities); (7) Building Maintenance, which includes maintaining the facilities in “sanitary and operable condition” and providing janitorial services in common areas, garbage removal, pest control, facility maintenance and repair, building security, and preparing units for move-in and move-out; (8) Coordinating with supportive services to prevent tenant housing loss; (9) Wellness checks and emergency safety checks; (10) Front desk coverage 24 hours a day, seven days a week; and (11) Exit planning, which requires alerting support services staff when tenants give notice to leave and maintaining a forwarding address when possible.

In addition, Tenderloin Housing Clinic is responsible for maintaining stewardship of the master lease and coordinating with the property's owner on regular maintenance; and, coordinating and conducting regular asset management meetings to address ongoing capital needs, property owner's obligations, changes to the approved sublease and any other issues related to the master lease.

Program Monitoring

HSH's FY 2020-21 & FY 2021-22 program monitoring is underway as of this writing. HSH completed its review of the program's performance and outcome objectives, including site visits in April 2023, and provided draft findings to Tenderloin Housing Clinic, which has until June 5, 2023 to respond to HSH's observations and findings. HSH draft findings included: (1) the three sites having higher vacancy rates than contract goals, (2) supportive service outcomes below contract goals, (3) an out of service elevator, which has since been restored to service, and (4) missing administrative documentation. Findings are subject to change, pending additional documentation from Tenderloin Housing Clinic during the program monitoring close out process.

HSH notes that, because the sites are partially funded by federal Continuum of Care monies, the sites were separately monitored to meet federal standards for habitability in 2022 and all findings were closed.

Finally, HSH has created a Housing Placement team in January 2023, which has contributed to a reduction of vacancies across the Department's permanent supportive housing portfolio from 1,350 in October 2022 to 825 in April 2023.

Fiscal Monitoring

HSH completed fiscal and compliance monitoring in April 2023 as part of the Citywide non-profit monitoring process and the review did not have any findings.

FISCAL IMPACT

As shown below in Exhibit 2 below, the annual cost of the program in the extension period is \$9.4 million, of which \$6.6 million is funded by the City. The remaining \$2.7 million of annual expenditures are primarily funded by a Continuum of Care federal grant (\$2.1 million), tenant rents, and U.S. Veterans Affairs Supportive Housing (VASH) vouchers.

Exhibit 2: Annual Program Budget

	Current	Current	Proposed	Change
	FY 2021-22	FY 2022-23	FY 2023-24	Current vs Proposed
Funding Sources				
<i>City Funding</i>				
General Fund	\$3,399,475	\$5,863,727	\$6,040,681	\$176,954
Homeless Gross Receipts Tax	118,132	608,666	608,666	0
Subtotal, City Funding	\$3,517,607	\$6,472,393	\$6,649,347	\$176,954
<i>Other Funding</i>				
Tenant Rental Income	\$413,061	\$271,496	\$398,346	\$126,849
Veterans Affairs (VA) Grant	420,091	205,000	205,000	0
Continuum of Care (CoC) Grant	710,619	1,347,439	2,103,214	755,775
Subtotal, Other Funding	\$1,543,771	1,823,935	2,706,559	882,624
Total Funding	\$5,061,378	\$8,296,329	\$9,355,906	\$1,059,578
Expenditures				
Salaries & Benefits	\$1,972,299	\$3,260,717	\$3,866,888	\$606,171
Operating Expense	712,901	1,093,517	1,213,590	120,073
Indirect Cost	310,781	500,737	584,255	83,518
Other Expenses	2,014,397	3,441,358	3,691,173	249,815
Total Expenditures	\$5,061,378	\$8,296,326	\$9,355,906	\$1,059,578

Source: Appendix B of Proposed Amendment

Note: Other Expenses include master leasing costs, utilities, and building maintenance.

Changes to Program Budget

Starting in FY 2023-24, the first year of the proposed extension, program costs are increasing by \$1.1 million, primarily due to an increase in provider FTEs from 39.23 to 46.79. These costs are primarily covered by an increase in the Continuum of Care grant. City funding is increasing by \$0.2 million starting in FY 2022-23 to pay for increased property management costs at the National Hotel.

In FY 2022-23, City funding increased by approximately \$3.1 million over the prior year to cover revenue losses resulting from implementing the Board's ordinance to limit tenant rent to 30 percent of tenant income (File 20-1185), increases in master lease costs, increases in provider wages, and an increase in provider FTE from 31.34 to 39.23.

The existing grant funded \$25,000 in capital improvements for bathrooms and \$26,000 for community floor upgrades in FY 2021-22, both in the Winton Hotel.

Not to Exceed Amount

Exhibit 3 below shows the basis for the proposed resolution's not to exceed amount, which is built on the FY 2023-24 program budget shown above plus a 20 percent contingency on remaining spending in FY 2022-23 and the extension period.

Exhibit 3: Not To Exceed Amount

FY 2021-22	\$3,517,607
FY 2022-23	\$6,649,347
FY 2023-24	\$6,649,347
FY 2024-25	\$6,649,347
FY 2025-26	\$6,649,347
Subtotal, Projected HSH Funding	\$30,114,995
Contingency (20%)*	\$4,211,253
Not to Exceed Amount	\$34,326,248

Source: Appendix B of Proposed Amendment

Note: the contingency amount is based on 20 percent of two months of the FY 2022-23 grant budget and subsequent years.

Actual Spending

HSH staff report that THC had spent \$3.7 million of its \$6.6 million FY 2022-23 City-funded grant budget through March 2023.¹ Using a straight-line projection plus a 15 percent contingency, we estimate total spending of \$5.6 million in FY 2022-23, or \$1.0 million below budget. However, HSH expects spending to be closer to the annual grant budget in FY 2023-24 as vacancies are filled and new support services staff are hired across all three sites.

POLICY CONSIDERATION

Reduce Contract Extension

Based on the preliminary program monitoring findings and underspending on this year's grant agreement due, in part, to staff vacancies, we recommend the Board approve a one-year extension to the proposed agreement through FY 2023-24, for a total not to exceed amount of \$17,100,000. HSH can then return to the Board of Supervisors with evidence of improved performance at these sites. We note that the City incurs costs under the proposed grant agreement, whether units are filled or vacant.

¹ According to HSH, underspending was driven by staff vacancies, which are now in recruitment, and because there was no spending at the National Hotel through late 2022 due to a fire and subsequent repairs. The National Hotel began taking some housing referrals in November 2022 and accelerated in April 2023 following the addition of federal funding for that site.

Over time, if vacancies persist and performance does not improve, the Board should consider requesting HSH transfer residents to other housing providers and re-purpose these sites as shelter, as it did with Baldwin Navigation Center (File 23-0415). HSH expects that 151 units of new permanent supportive housing to be available for lease in FY 2024-25. Transferring residents would reduce the City's permanent supportive housing stock by 236 units and potentially result in a loss of \$2.1 million in federal funding currently assigned to these sites until the next annual Continuum of Care funding cycle.

RECOMMENDATIONS

1. Reduce the not to exceed amount of the proposed resolution from \$34,326,248 to \$17,100,000 and the extension term from three years to one year.
2. Approve the resolution, as amended.